

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 2000)

JUN 19 3 41 PM '00
Docket No. R2000-1

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

VAL-PAK DIRECT MARKETING SYSTEMS, INC.,
VAL-PAK DEALERS' ASSOCIATION, INC., AND
CAROL WRIGHT PROMOTIONS, INC.

FIRST INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO AMERICAN BANKERS ASSOCIATION
AND NATIONAL ASSOCIATION OF PRESORT MAILERS
WITNESS JAMES A. CLIFTON (VP-CW/ABA&NAPM-T1-1-7)

(June 19, 2000)

Pursuant to sections 25 through 27 of the Rules of Practice of the Postal Rate Commission, Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers' Association, Inc., and Carol Wright Promotions, Inc., hereby submit the following interrogatories and requests for production of documents.

Respectfully submitted,



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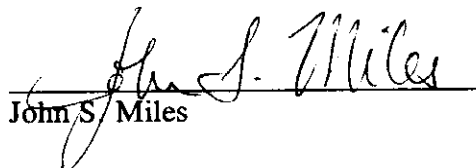
Val-Pak Direct Marketing Systems, Inc.,

Val-Pak Dealers' Association, Inc., and

Carol Wright Promotions, Inc.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served this document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.


John S. Miles

June 19, 2000

VP-CW/ABA&NAPM-T1-1.

Please refer to your testimony at page 51, where you compare Postal Service witness Daniel's unit cost data (by weight) between First-Class Presort and Standard A Regular for the range 0-3 ounces. You observe that, in the 0-1 ounce category, the costs incurred by Standard A Regular are 2.6 cents greater, and that any value of service difference between First-Class Mail and Standard A Mail such as premium pay and priority delivery factors should have been revealed in this analysis.

- a. Please confirm that, according to witness Daniel's calculations, Standard A Regular is the subclass of Standard A Mail with the highest unit costs for the weight range 0-3 ounces. If you do not confirm, please explain.
- b. Please confirm that, according to witness Daniel's calculations, First-Class Presort is the rate category of First-Class Mail with the lowest unit costs for the weight range 0-3 ounces. If you do not confirm, please explain.
- c. Please provide a comparison of unit cost data (by weight) between First-Class Presort and Standard A ECR for the range 0-3 ounces. Which mail product has lower unit costs? If the answer is ECR, please state the reasons for the difference in cost incurrence.
- d. Why in your testimony did you only choose to compare the subclass of Standard A Mail with the highest identified unit costs to the First-Class rate with the lowest identified unit costs for the weight range investigated?

VP-CW/ABA&NAPM-T1-2.

Please refer to your testimony at page 52, where you advise the Commission to use the Standard A Regular data presented by witness Daniel to develop the First-Class extra-ounce rate.

- a. Do you make this recommendation because you do not believe the value of service differences (between First-Class Mail and Standard A Mail) identified by witness Daniel, such as premium pay and priority delivery factors, exist, or because you do not believe they should be acknowledged in the formulation of First-Class rates? Please explain fully.
- b. Do you have more confidence in the credibility of witness Daniel's analysis of Standard A Regular than First-Class presort? Explain any affirmative answer.

VP-CW/ABA&NAPM-T1-3.

Please refer to your testimony at page 58, where you opine that a stated goal of the Commission in recent cases has been to keep First-Class Mail's cost coverage close to the average for all mail.

- a. Please provide a citation to the *Opinion & Recommended Decision* in Docket No. R97-1 where this goal is expressed by the Commission.
- b. Has the Commission identified in either of the past two omnibus rate cases any subclasses which it stated should always have a cost coverage above that of First-Class Mail? If so, please provide the citations to the relevant portions of each *Opinion & Recommended Decision*.

- c. Express Mail once had a cost coverage that was far higher than First-Class Mail. Now Express Mail contributes very little to institutional costs. Do you see any long-term danger to First-Class mailers of harming other competitive postal products so that First-Class monopoly mail is the only class left making significant contributions to institutional costs? Please explain your answer fully.
- d. Preliminary RPW data (drawn from the same resource which you cite for Table 12) for the first two quarters of FY 2000 show that both volume and revenue for Automation Presort letters and flats are increasing (compared to SPLY), while volume and revenue for Standard A ECR are decreasing. All of the Postal Service's proposed increases to automation letters and flats (except 3-digit flats) are below the average proposed increase to ECR (some categories of which face double-digit increases under the Postal Service's proposed rates). Please state whether or not you have any reluctance to impose new noncost-based burdens on one subclass that is already losing volume and revenue to benefit another rate category with healthy rates of growth, and explain fully.

VP-CW/ABA&NAPM-T1-4.

Please refer to your testimony at pages 58-59, where you compare the annual markup and cost coverage for First-Class Presort and Standard A Regular.

- a. In applying the statutory noncost criteria, do you see differences between an expedited, prioritized rate category and a ground transportation subclass (ECR)

that has the lowest service standard among postal products (*see* Postal Service Request, Rule 54(n)) which would support a lower coverage for ECR?

- b. Are you asserting again in this docket that Standard A Mail is cross-subsidized by First-Class Mail? Please explain your answer.
- c. Do you believe the implicit cost coverage for First-Class Presort (which is not a subclass) should be compared to the expressly set cost coverage of other (non First-Class) postal products exactly as though First-Class Presort were a subclass?
- d. In its *Opinion & Recommended Decision* in Docket No. R97-1, the Commission stated that it “has never compared intrinsic cost coverages of rate cells within different subclasses.” (¶ 5554)
 - (i) Do you believe the Commission’s observation was wrong?
 - (ii) Do you believe the Commission’s policy is wrong?
- e. Which **subclass** has a higher cost coverage under the Postal Service’s proposed rates, First-Class letters and sealed parcels, or Standard A ECR?
- f. Please define “First-Class Presort” and “First-Class workshared” as used in your testimony, and explain any distinctions you intend between “presort” and “workshared.”
- g. What did you mean when you said that “First-Class workshared” is supposed to be part of a single First-Class letters subclass at page 60 of your testimony? Do you mean that there is some manner in which this rate category is not part of the First-Class letters and sealed parcels subclass?

- h. In Table 12, you present three columns of First-Class Mail data — Total, Single-Piece, and Presort.
 - (i) Does Total refer to all First-Class Mail, or rather all mail in the sealed letters and parcels subclass?
 - (ii) What categories make up Presort as used in your testimony?
- i. In Table 12, does Total under Standard A Mail include data from the Standard A Mail single-piece and nonprofit subclasses?

VP-CW/ABA&NAPM-T1-5.

Please refer to your testimony at page 61, where you speak of First-Class Mail paying nearly twice the amount per piece in institutional delivery costs as Standard A Commercial mailpieces, while First-Class workshared mail pays 2.3 times as much.

- a. You noted on page 51 of your testimony that witness Daniel had referred to the value of service differences between First-Class Mail and Standard A Mail, reflected in such attributable cost factors as premium pay and priority delivery. Do you disagree that such value of service differences of this sort help explain why First-Class should make a higher per-piece contribution to institutional delivery costs than lower value mailpieces?
- b. Is it not true that, under Postal Service service standards, delivery of Standard A Mail can be and is deferred, while First-Class cannot? Should this fact have a bearing on the two classes' respective per-piece contributions to institutional delivery costs?

VP-CW/ABA&NAPM-T1-6.

Please refer to your testimony at page 62, Table 14, where you present a difference between “Allocated” institutional delivery costs and “Fully Allocated” institutional delivery costs. Do you propose that the Commission recommend rates based upon your “Full Allocation” of institutional delivery costs? If so, where do you discuss this in your testimony? If not, why did you include it in your testimony?

VP-CW/ABA&NAPM-T1-7.

Please refer to your testimony at page 63, where you set out an additional uniform 0.645 cent increase in rates/decrease in discounts for each rate category of Standard A Regular and ECR (although you state that this is not a formal rate recommendation).

- a. Please confirm that the TYAR markup index for the First-Class letters and sealed parcels subclass is 1.17, while the TYAR markup index for Standard A Commercial is 0.91 (Exhibit USPS-32B, page 1, as revised 4/21/00). If you do not confirm, please provide the correct figures and the supporting calculations.
- b. In its *Opinion & Recommended Decision* in Docket No. R97-1, the Commission stated:

The Commission likewise rejects intervenors’ arguments that First-Class pays a disproportionate share of institutional cost compared to Standard A. In R94-1, the Commission recommended rates which produced a markup index of 1.311 for First-Class letters and 0.897 for Standard A commercial mail (prior to reclassification). PRC Op. R94-1, para. 5287. The recommended rates in the instant proceeding produce a slightly reduced markup index of 1.308 for First-Class letters and an increased markup index of 0.949 for the combined ECR and

Regular subclasses, which narrows the gap between the classes' respective cost coverages. [Para. 5555]

Please confirm that the Postal Service's proposed rates in this docket would result in a more aggressive narrowing of the "gap" between the markups for First-Class letters and Standard A Commercial than resulted from the rates recommended in Docket No. R97-1. If you do not confirm, please explain your answer.